



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
CLINTON COUNTY FISCAL COURT**

Fiscal Year Ended June 30, 2001

**EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE CLINTON COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Auditor of Public Accounts has completed the Clinton County Fiscal Court audit for fiscal year ended June 30, 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Cash balances increased by \$195,843 from the beginning of the fiscal year, resulting in a cash surplus of \$734,213 as of June 30, 2001.

Debt Obligations:

An ambulance lease liability totaled \$31,449 as of June 30, 2001.

Report Comments:

- The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$328,885 And Entered Into A Written Agreement To Protect Deposits
- Accurate Accounting Records Should Be Maintained For The Jail Canteen

<u>CONTENTS</u>	<u>PAGE</u>
INDEPENDENT AUDITOR’S REPORT	1
CLINTON COUNTY OFFICIALS.....	3
STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES ARISING FROM CASH TRANSACTIONS	6
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES	10
NOTES TO FINANCIAL STATEMENTS	12
SUPPORTING SCHEDULES:	
COMPARATIVE SCHEDULE OF BUDGETED TO ACTUAL OPERATING REVENUE	19
SCHEDULE OF OPERATING REVENUE	23
COMPARATIVE SCHEDULE OF FINAL BUDGET AND BUDGETED EXPENDITURES	27
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	31
COMMENTS AND RECOMMENDATIONS	35
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS	



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Charlene King, Clinton County Judge/Executive
Members of the Clinton County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Clinton County, Kentucky, as of June 30, 2001, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Clinton County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Clinton County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2001 of Clinton County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Charlene King, Clinton County Judge/Executive
Members of the Clinton County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated July 18, 2002 on our consideration of Clinton County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Clinton County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$328,885 And Entered Into A Written Agreement To Protect Deposits
- Accurate Accounting Records Should Be Maintained For The Jail Canteen

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
July 18, 2002

CLINTON COUNTY OFFICIALS

Fiscal Year Ended June 30, 2001

Fiscal Court Members:

Charlene King	County Judge/Executive
Norman Dale Asberry	Magistrate
Ricky Craig	Magistrate
Allen Glidewell	Magistrate
James Polston	Magistrate
Ricky Savage	Magistrate
Gary Tallent	Magistrate

Other Elected Officials:

Wanda White	County Attorney
Gene Ferrill	Jailer
Jim Elmore	County Clerk
Ralph Groce	Circuit Court Clerk
Kay Riddle	Sheriff
Billy Joe Coop	Property Valuation Administrator
Steve Talbott	Coroner

Appointed Personnel:

Debbie Duvall	County Treasurer
Debbie Duvall	Occupational Tax Collector
Connie Branham	Finance Officer
Ronnie Phillips	Road Supervisor

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STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

CLINTON COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2001

Assets

General Fund Type

General Fund:			
Cash	\$	93,561	
Road and Bridge Fund:			
Cash		301,851	
Due From General Fund (Note 6)		39,330	
Jail Fund:			
Cash		100,962	
Local Government Economic Assistance Fund:			
Cash		100,575	
Community Development Block Grant-Learning Center Fund:			
Cash		2	
Disaster and Emergency Fund:			
Cash		4,245	
Occupational Tax Fund:			
Cash		132,766	
Payroll Revolving Account:			
Cash		<u>1,925</u>	\$ 775,217

Special Revenue Fund Type

Forest Fire Fund:			
Cash		<u>251</u>	
Total Assets			<u><u>\$ 775,468</u></u>

The accompanying notes are an integral part of the financial statements.

CLINTON COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2001
 (Continued)

Liabilities and Fund Balances

Liabilities

General Fund Type

General Fund:

Due to Road and Bridge Fund (Note 6) \$ 39,330

Payroll Revolving Account 1,925 \$ 41,255

Fund Balances

Reserved:

General Fund Type

Community Development Block Grant-Learning Center Fund \$ 2
 Occupational Tax Fund 132,766 132,768

Special Revenue Fund Type

Forest Fire Fund 251

Unreserved:

General Fund Type

General Fund \$ 54,231
 Road and Bridge Fund 341,181
 Jail Fund 100,962
 Local Government Economic Assistance Fund 100,575
 Disaster and Emergency Fund 4,245 \$ 601,194
 Total Liabilities and Fund Balances \$ 775,468

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

CLINTON COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

Fiscal Year Ended June 30, 2001

	General Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 2,687,265	\$ 790,819	\$ 721,553	\$ 111,576
Transfers In	679,628	463,278	25,000	168,500
Total Cash Receipts	<u>\$ 3,366,893</u>	<u>\$ 1,254,097</u>	<u>\$ 746,553</u>	<u>\$ 280,076</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 2,491,422	\$ 1,207,976	\$ 564,393	\$ 217,773
Transfers Out	679,628	25,000	146,940	
Total Cash Disbursements	<u>\$ 3,171,050</u>	<u>\$ 1,232,976</u>	<u>\$ 711,333</u>	<u>\$ 217,773</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 195,843	\$ 21,121	\$ 35,220	\$ 62,303
Cash Balance - July 1, 2000	<u>538,370</u>	<u>72,440</u>	<u>266,631</u>	<u>38,659</u>
Cash Balance - June 30, 2001	<u><u>\$ 734,213</u></u>	<u><u>\$ 93,561</u></u>	<u><u>\$ 301,851</u></u>	<u><u>\$ 100,962</u></u>

The accompanying notes are an integral part of the financial statements.

CLINTON COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
Fiscal Year Ended June 30, 2001
(Continued)

General Fund Type				Special Revenue Fund Type
Local Government Economic Assistance Fund	Community Development Block Grant - Learning Center Fund	Disaster and Emergency Fund	Occupational Tax Fund	Forest Fire Fund
\$ 210,938 14,000	\$ 234,654	\$ 6,252 8,550	\$ 610,423	\$ 1,050 300
<u>\$ 224,938</u>	<u>\$ 234,654</u>	<u>\$ 14,802</u>	<u>\$ 610,423</u>	<u>\$ 1,350</u>
\$ 144,990	\$ 234,654	\$ 12,538	\$ 107,812 507,688	\$ 1,286
<u>\$ 144,990</u>	<u>\$ 234,654</u>	<u>\$ 12,538</u>	<u>\$ 615,500</u>	<u>\$ 1,286</u>
\$ 79,948 20,627	\$ 0 2	\$ 2,264 1,981	\$ (5,077) 137,843	\$ 64 187
<u>\$ 100,575</u>	<u>\$ 2</u>	<u>\$ 4,245</u>	<u>\$ 132,766</u>	<u>\$ 251</u>

The accompanying notes are an integral part of the financial statements.

CLINTON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Clinton County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity.

Additional - Clinton County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Clinton County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Clinton County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Clinton County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, Community Development Block Grant - Learning Center Fund, Disaster and Emergency Fund, and Occupational Tax Fund.

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Forest Fire Fund of the Fiscal Court is reported as a Special Revenue Fund Type.

CLINTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United State of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Clinton County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Clinton County Fiscal Court:

Clinton County Industrial Development Authority
Clinton County Extension District
Clinton County Public Library District

CLINTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Clinton County's joint ventures include:

Albany - Clinton County Recreation Park Board

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of June 30, 2001, the bank balances were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond. However, as of August 31, 2000, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving 328,885 of public funds uninsured and unsecured. In addition, the county did not have a written agreement with the depository institution securing the county's interest in the collateral.

CLINTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 3. Deposits (Continued)

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of August 31, 2000.

	<u>Bank Balance</u>
Collateralized with securities held by the county's agent in the county's name	\$ 361,496
FDIC Insured	200,000
Uncollateralized and uninsured	<u>328,885</u>
Total	<u><u>\$ 890,381</u></u>

Note 4. Operating Lease

<u>Description</u>	<u>Purchase Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount</u>
1999 Ford Ambulance	3/24/1999	4/14/2004	5.28%	<u><u>\$ 31,449</u></u>

Note 5. Insurance

For the fiscal year ended June 30, 2001, Clinton County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 6. General Fund Transfer Due To Road And Bridge Fund

Our prior year audit stated that the General Fund owed the Road and Bridge Fund \$64,330 as of June 30, 2000. As of June 30, 2001, \$25,000 was repaid. This leaves a balance of \$39,330 due the Road and Bridge Fund, which was paid in full subsequent to June 30, 2001.

Note 7. Litigation

The Clinton County Fiscal Court has filed a lawsuit against the Clinton County Sheriff for partial nonpayment of his 1997 and 1998 taxes collected. This lawsuit is still pending; therefore, no possible outcome can be predicted at this time. However, if the court should rule in favor of the fiscal court it is possible that it will receive additional revenue from the Sheriff in the future.

CLINTON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 7. Litigation (Continued)

The Clinton County Sheriff has filed a lawsuit against the Clinton County Fiscal Court for payment of his 1999 statutory maximum salary and benefits. This lawsuit is still pending; therefore, no possible outcome can be predicted. However, if the court should rule against the fiscal court it is possible that the fiscal court will have to pay the Sheriff his maximum salary and benefits for that year.

Note 8. Material Grants

A. Community Development Block Grant - Learning Center Fund

In fiscal year 1996, the Clinton County Fiscal Court was awarded a federal community development block grant for \$643,786 from the Department for Local Government, Commonwealth of Kentucky. The purpose of this grant was the acquisition of land and construction of the Clinton County Learning Center. Funds are drawn down on an as needed basis. During fiscal year 2001, the Clinton County Fiscal Court received and expended grant funds totaling \$234,654.

B. Sheriff's Vehicle Grant

The Clinton County Fiscal Court was awarded a state grant of \$40,000 from the Department for Local Government, Commonwealth of Kentucky, to assist in the purchase of vehicles for the Sheriff's Department. During fiscal year 2001, the Clinton County Fiscal Court received and expended grant funds totaling \$40,000.

C. Park Improvements Grant

The Clinton County Fiscal Court was awarded a state grant of \$65,000 from the office of the Governor, Department for Local Government, Commonwealth of Kentucky, to make improvements to the Mountain View Recreational Park. During fiscal year 2001, the Clinton County Fiscal Court received and expended funds totaling \$65,000.

Note 9. Jail Canteen Fund

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations.

The Clinton County Jail Canteen Fund had income of \$26,675, less cost of goods sold of \$19,353, leaving net income at \$7,322 as of June 30, 2001. All profit expenditures were for the benefit and/or recreation of the inmates.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

CLINTON COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

Fiscal Year Ended June 30, 2001

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 698,836	\$ 790,819	\$ 91,983
Road and Bridge Fund	714,979	721,553	6,574
Jail Fund	73,100	111,576	38,476
Local Government Economic Assistance Fund	200,937	210,938	10,001
Community Development Block Grant- Learning Center Fund	513,861	234,654	(279,207)
Disaster and Emergency Service Fund	3,800	6,252	2,452
Occupational Tax Fund	539,482	610,423	70,941
<u>Special Revenue Fund Type</u>			
Forest Fire Fund	<u>1,000</u>	<u>1,050</u>	<u>50</u>
Totals	<u>\$ 2,745,995</u>	<u>\$ 2,687,265</u>	<u>\$ (58,730)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 2,745,995
Add: Budgeted Prior Year Surplus			<u>502,650</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 3,248,645</u>

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SCHEDULE OF OPERATING REVENUE

CLINTON COUNTY
SCHEDULE OF OPERATING REVENUE

Fiscal Year Ended June 30, 2001

Revenue Categories	Totals (Memorandum Only)	GOVERNMENTAL FUND TYPE	
		General Fund Type	Special Revenue Fund Type
Taxes	\$ 886,351	\$ 885,427	\$ 924
In Lieu Tax Payments	78,017	78,017	
Excess Fees	6,826	6,826	
Licenses and Permits	1,840	1,840	
Intergovernmental Revenues	1,246,074	1,246,074	
Charges for Services	392,994	392,994	
Miscellaneous Revenues	52,266	52,140	126
Interest Earned	22,897	22,897	
Total Operating Revenue	<u>\$ 2,687,265</u>	<u>\$ 2,686,215</u>	<u>\$ 1,050</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

CLINTON COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2001

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 496,062	\$ 469,026	\$ 27,036
Protection to Persons and Property	929,679	814,363	115,316
General Health and Sanitation	41,400	36,233	5,167
Social Services	1,800	1,714	86
Recreation and Culture	618,686	338,583	280,103
Roads	702,064	451,199	250,865
Capital Projects	6,500	2,725	3,775
Administration	451,154	376,293	74,861
TOTAL BUDGET - GENERAL FUND TYPE	\$ 3,247,345	\$ 2,490,136	\$ 757,209

Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
Protection to Persons and Property	\$ 1,300	\$ 1,286	\$ 14
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	\$ 1,300	\$ 1,286	\$ 14

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Charlene King, Clinton County Judge/Executive

Members of the Clinton County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Clinton County, Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated July 18, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Clinton County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$328,885 And Entered Into A Written Agreement To Protect Deposits
- Accurate Accounting Records Should Be Maintained For The Jail Canteen

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Clinton County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Clinton County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying comments and recommendations.

- Accurate Accounting Records Should Be Maintained For The Jail Canteen

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
July 18, 2002

COMMENTS AND RECOMMENDATIONS

CLINTON COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2001

NONCOMPLIANCES

- 1) The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$328,885 And Entered Into A Written Agreement To Protect Deposits

On August 31, 2000 \$328,885 of the county's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The county should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the county enter into a written agreement with the depository institution to secure the county's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

County Judge/Executive Charlene King's Response:

This will be corrected.

- 2) Accurate Accounting Records Should Be Maintained For The Jail Canteen

Our audit revealed that although the jailer is now maintaining some of the required accounting records for the jail canteen fund, these records were not accurately maintained. Based on the available bank records, the jailer's receipts and disbursements ledgers, daily check out sheets, and listings of amounts owed to the prisoners were not accurate. Monthly bank reconciliations were not prepared and no annual canteen report was prepared or submitted to the county treasurer for fiscal year ended June 30, 2001.

KRS 441.135 states, "the jailer may maintain a canteen fund for the benefit of the prisoners lodged in the jail and may assign such jail employees and prisoners to operate the canteen as are necessary for efficient operation. All profits from the canteen shall be used for the benefit or recreation of the prisoners. The jailer shall keep books of accounts of all receipts and disbursements from the canteen and shall annually report to the county treasurer on the canteen account."

CLINTON COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2001
(Continued)

NONCOMPLIANCES (Continued)

2) Accurate Accounting Records Should Be Maintained For The Jail Canteen (Continued)

In addition, the Instructional Guide For County Budget Preparation And State Local Finance Officer Policy Manual lists minimum accounting and reporting standards as prescribed by the state local finance officer pursuant to KRS 68.210 and states that these standards are to be utilized by county jailers for jail canteen funds. These standards require that daily checkout sheets be prepared and daily deposits be made. Receipts should be accurately posted to the jail canteen receipts journal on a daily basis and the total amount category should agree with the amount deposited line on the daily check out sheet. Checks should be accurately posted to the jail canteen disbursements journal and checks should be issued for all expenditures made. We recommend the jailer comply with these minimum accounting and reporting standards.

Bookkeeper Janet Ferrill's Response:

The Jailer and I are still working on a better method for maintaining better records for the canteen and reimbursed fees.

PRIOR YEAR FINDINGS

In the prior year audit report, we reported the following comments:

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- Accurate Accounting Records Should Be Maintained For The Jail Canteen

These comments have not been corrected and are repeated in the current year report.

- Expenditures From The Road And Bridge Fund Should Be For Road Purposes Only

We recommended that the fiscal court transfer the balance due of \$64,330 to the road and bridge fund.

This comment has been subsequently corrected and proper amounts have been transferred.

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

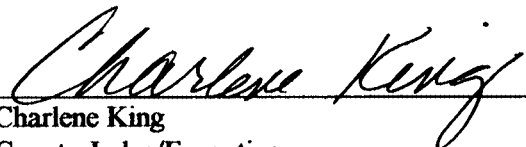
CLINTON COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001


CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS
CLINTON COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Clinton County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Charlene King
County Judge/Executive



Debbie Duvall
County Treasurer